

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER)
GAS COMPANY, LLC AS BANKRUPTCY)
OPERATOR OF B.T.U. GAS COMPANY FOR) CASE NO. 2011-00512
APPROVAL OF AN INTERIM ADJUSTMENT)
OF THE GAS COST ADJUSTMENT TARIFF)

ORDER

On October 31, 2011, in Case No. 2011-00374,¹ the Commission approved a Gas Cost Adjustment ("GCA") clause for B.T.U. Gas Company ("BTU") providing for the quarterly adjustment of BTU's rates to reflect its most current wholesale gas supply cost.

On December 20, 2011, BTU filed a Petition for an Interim Gas Cost Recovery ("GCR") Adjustment. In its application, BTU requested an interim waiver of the five percent limit for lost gas costs; a waiver of the 30-day notice period to allow it to increase its gas cost to \$8.00 per Mcf on an interim basis effective for billings rendered on and after January 1, 2012; and a deviation from its GCR tariff and the filing requirements of the GCR tariff because its proposed rate is not calculated based on actual gas costs and adjustments. On December 27, 2011, BTU filed a revised tariff to clarify its request for an \$8.00 gas cost rate.

¹ Case No. 2011-00374, Filing of B.T.U. Gas Company, Inc. for Approval of a Gas Cost Recovery Tariff (Ky. PSC Oct. 31, 2011).

In support of its request for waiver of the five percent limit on gas cost losses, BTU's application provided information concerning what it terms an "inordinately high" rate of Lost & Unaccounted for gas. According to BTU's application, its operator, Kentucky Frontier Gas, LLC ("Kentucky Frontier"), has identified approximately 60 entities taking unmetered gas, as well as several illicit and unmetered connections with other pipelines. Kentucky Frontier estimates that the BTU system is receiving 50 to 100 percent more gas from producers than it is selling to metered customers. BTU provided with its application a sample calculation of its Expected Gas Cost ("EGC") which includes 67 percent line loss, and which would produce an EGC of \$14.8012. For informational purposes, BTU also included with its application an Actual Adjustment ("AA") calculation of \$11.0933 based on \$56,700 in under-recoveries of gas cost for September, October, and November 2011. BTU stated that it is not seeking recovery of these losses in the current application, but will do so in a GCR to be filed in the second quarter of 2012. The Commission notes that BTU's GCR tariff was approved effective October 31, 2011, and that the GCR mechanism is only available to track over- and under-recoveries of gas cost for time periods that the tariff was effective. BTU's GCR tariff cannot therefore be used to collect under-recoveries of gas cost occurring prior to October 31, 2011.

BTU states that, because the \$25.8925 gas cost rate resulting from the \$14.8012 EGC and the \$11.0933 AA is approximately six times the current rate and an unreasonable increase for the customers, it is requesting to increase rates by only a portion of the amount needed to actually recover its gas costs. It is therefore proposing to deviate from the GCR tariff in its calculation and from the filing requirements of its

GCR to implement an \$8.00 GCR rate effective with billings on and after January 1, 2012.

In support of its request to implement rates with less than 30 days' notice, BTU cites Case No. 92-346FF,² in which the Commission issued an Order permitting the Union Light, Heat and Power Company ("ULH&P") to adjust its rates after providing only 26 days' notice, to be effective January 2, 2001 as requested in its application of December 7, 2000. BTU states that its application for interim adjustment is similar to that of ULH&P, and that ULH&P had requested a waiver of the 30 days' notice requirement based on the impact on its rates of an unexpected increase in wholesale gas costs.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. BTU's notice includes revised rates designed to pass on to its customers an increase in wholesale gas costs from its suppliers, plus an allowance for line loss significantly above the five percent the Commission typically allows in local distribution company ("LDC") GCR rates.

2. BTU's request for a deviation from its GCR tariff in calculating and implementing an \$8.00 gas cost rate is not unreasonable given EGC rates recently approved by the Commission for other jurisdictional LDCs. BTU's request to incorporate greater than five percent line loss in its rates on an interim basis should be granted in light of the extreme nature of the BTU system's losses, as well as the relative

² Case No. 92-346FF, Notice of the Purchased Gas Adjustment Filing of the Union Light, Heat and Power Company (Ky. PSC Dec. 20, 2000).

reasonableness of its gas cost estimate. The \$8.00 per Mcf rate represents an increase of \$3.7001 per Mcf from its previous gas cost rate of \$4.2999.

3. Any proposal to use greater than five percent line loss in its EGC calculation should be fully supported in future BTU GCR applications, and should be limited to this period of inordinate line losses. The Commission expects the EGC to reflect actual supplier costs and a lower charge as more accurate usage is established for BTU's customer base.

4. Despite BTU's designation of its application as an "interim" GCR adjustment, BTU's tariff requires it to file 30 days in advance of each calendar quarter. Following its initial GCR application of October 3, 2011 for interim rates to be effective November 1st and subsequently approved by the Commission for service rendered on and after November 2, 2011, BTU's filing for rates effective January 1, 2012 should have been filed no later than December 2, 2011 pursuant to the terms of its tariff. BTU's timely filing of its GCR application for the calendar quarter beginning January 1, 2012 would have ensured that a rate change would be implemented for rates effective on that date. In spite of this filing delay, the Commission recognizes the unusual circumstances of the BTU system, and finds that good cause exists to waive the required 30 days' notice period to the shortest time permitted by statute, which is 20 days. BTU's requested rate increase should be effective with service rendered on after January 9, 2012.

5. BTU does not propose to implement a current quarter AA. The AA will be unavailable to BTU until its filing of March 1, 2012, for rates to be effective April 1, 2012, to recover under- and over-recoveries of gas cost beginning November 2011.

6. BTU's GCA is \$8.0000 per Mcf, which is an increase of \$3.7001 per Mcf from its previous gas cost rate of \$4.2999 per Mcf.

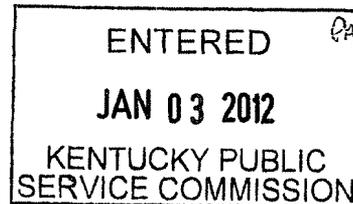
7. The rates in the Appendix to this Order are fair, just, and reasonable, and should be approved for service rendered on and after January 9, 2012.

IT IS THEREFORE ORDERED that:

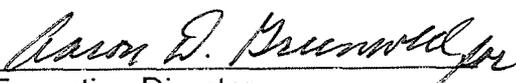
1. The rates in the Appendix to this Order are approved for billing for service rendered on and after January 9, 2012.

2. Within 20 days of the date of this Order, BTU shall file revised tariffs with this Commission setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00512 DATED **JAN 03 2012**

The following rates and charges are prescribed for the customers in the area formerly served by B.T.U. Gas Company, Inc.. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE SCHEDULES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
First Mcf (Minimum Bill)	\$ 3.9000	\$8.0000	\$11.9000
Over 1 Mcf	\$ 2.9700	\$8.0000	\$10.9700

Honorable John N Hughes
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